

105TH CONGRESS
1ST SESSION

H. R. 2929

To reform Social Security by creating individual Social Security retirement accounts.

IN THE HOUSE OF REPRESENTATIVES

NOVEMBER 8, 1997

Mr. PORTER introduced the following bill; which was referred to the Committee on Ways and Means, and in addition to the Committees on Education and the Workforce, and the Budget, for a period to be subsequently determined by the Speaker, in each case for consideration of such provisions as fall within the jurisdiction of the committee concerned

A BILL

To reform Social Security by creating individual Social Security retirement accounts.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “Individual Social Secu-
5 rity Retirement Accounts Act of 1997”.

1 **SEC. 2. REDUCTION AND ELIMINATION OF SOCIAL SECUR-**
2 **ITY TAXES ON INDIVIDUALS ELECTING TO**
3 **PARTICIPATE IN INDIVIDUAL RETIREMENT**
4 **PROGRAM.**

5 (a) TAX ON EMPLOYEES.—Subsection (a) of section
6 3101 of the Internal Revenue Code of 1986 (relating to
7 OASDI tax on employees) is amended to read as follows:

8 “(a) OLD-AGE, SURVIVORS, AND DISABILITY INSUR-
9 ANCE.—

10 “(1) INDIVIDUALS COVERED UNDER PART A OF
11 TITLE II OF THE SOCIAL SECURITY ACT.—In addi-
12 tion to other taxes, there is hereby imposed on the
13 income of every individual who is not a part B eligi-
14 ble individual a tax equal to 6.2 percent of the wages
15 (as defined in section 3121(a)) received by him with
16 respect to employment (as defined in section
17 3121(b)).

18 “(2) TRANSITIONAL TAX FOR PART B ELIGIBLE
19 INDIVIDUALS.—In addition to other taxes, there is
20 hereby imposed on the income of every individual
21 who is a part B eligible individual a tax equal to 1.2
22 percent with respect to wages (as defined in section
23 3121(a)) received by him with respect to employ-
24 ment (as defined in section 3121(b)), in the case of
25 wages received during the period of 10 years begin-

1 ning with the first calendar year for which such indi-
2 vidual is a part B eligible individual.”

3 (b) TAX ON EMPLOYERS.—Subsection (a) of section
4 3111 of the Internal Revenue Code of 1986 (relating to
5 OASDI tax on employers) is amended to read as follows:

6 “(a) OLD-AGE, SURVIVORS, AND DISABILITY INSUR-
7 ANCE.—

8 “(1) INDIVIDUALS COVERED UNDER PART A OF
9 THE SOCIAL SECURITY ACT.—In addition to other
10 taxes, there is hereby imposed on every employer,
11 with respect to having in the employer’s employ indi-
12 viduals who are not part B eligible individuals, an
13 excise tax equal to 6.2 percent of the wages (as de-
14 fined in section 3121(a)) paid by him with respect
15 to employment (as defined in section 3121(b)).

16 “(2) TRANSITIONAL TAX FOR PART B ELIGIBLE
17 INDIVIDUALS.—In addition to other taxes, there is
18 hereby imposed on every employer an excise tax,
19 with respect to having in the employer’s employ indi-
20 viduals who are part B eligible individuals, equal to
21 1.2 percent of the wages (as defined in section
22 3121(a)) paid by him with respect to employment
23 (as defined in section 3121(b)), in the case of wages
24 received during the period of 10 years beginning

1 with the first calendar year for which such individual
2 is a part B eligible individual.”

3 (c) SELF-EMPLOYMENT TAX.—Subsection (a) of sec-
4 tion 1401 of such Code (relating to OASDI tax on self-
5 employment income) is amended to read as follows:

6 “(a) OLD-AGE, SURVIVORS, AND DISABILITY INSUR-
7 ANCE.—

8 “(1) INDIVIDUALS COVERED UNDER PART A OF
9 THE SOCIAL SECURITY ACT.—In addition to other
10 taxes, there shall be imposed for each taxable year,
11 on the self-employment income of every individual
12 who is not a part B eligible individual for the cal-
13 endar year ending with or during such taxable year,
14 a tax equal to 12.40 percent of the amount of the
15 self-employment income for such taxable year.

16 “(2) TRANSITIONAL TAX FOR PART B ELIGIBLE
17 INDIVIDUALS.—In addition to other taxes, there
18 shall be imposed for each taxable year, on the self-
19 employment income of every part B eligible individ-
20 ual for the calendar year ending with or during such
21 taxable year, a tax equal to 2.40 percent of the
22 amount of the self-employment income for such tax-
23 able year, in the case of a taxable year ending dur-
24 ing the period of 10 years beginning with the first

1 calendar year for which such individual is a part B
2 eligible individual.”

3 (d) PART B ELIGIBLE INDIVIDUAL.—

4 (1) TAXES ON EMPLOYEES AND EMPLOYERS.—

5 Section 3121 of such Code (relating to definitions)
6 is amended by inserting after subsection (s) the fol-
7 lowing new subsection:

8 “(t) PART B ELIGIBLE INDIVIDUAL.—For purposes
9 of this chapter, the term ‘part B eligible individual’ means,
10 for any calendar year, an individual who is an eligible indi-
11 vidual (as defined in section 257(3) of the Social Security
12 Act) for such calendar year.”.

13 (2) SELF-EMPLOYMENT TAX.—Section 1402 of
14 such Code (relating to definitions) is amended by
15 adding at the end the following new subsection:

16 “(k) PART B ELIGIBLE INDIVIDUAL.—The term
17 ‘part B eligible individual’ means, for any calendar year,
18 an individual who is an eligible individual (as defined in
19 section 257(3) of the Social Security Act) for such cal-
20 endar year.”.

21 (e) EFFECTIVE DATES.—

22 (1) IN GENERAL.—Except as otherwise pro-
23 vided in this subsection, the amendments made by
24 this section shall apply to remuneration paid after
25 December 31, 1999.

1 (2) SELF-EMPLOYMENT TAX.—The amend-
 2 ments made by subsections (c) and (d)(2) shall
 3 apply to taxable years ending after December 31,
 4 1999.

5 **SEC. 3. INDIVIDUAL SOCIAL SECURITY RETIREMENT AC-**
 6 **COUNTS FUNDED BY SOCIAL SECURITY PAY-**
 7 **ROLL DEDUCTION PLANS AND CONTRIBU-**
 8 **TIONS BY SELF-EMPLOYED INDIVIDUALS.**

9 (a) IN GENERAL.—Title II of the Social Security Act
 10 is amended—

11 (1) by inserting before section 201 the follow-
 12 ing:

13 “PART A—INSURANCE BENEFITS”;

14 and

15 (2) by adding at the end the following new part:

16 “PART B—INDIVIDUAL RETIREMENT PROGRAM

17 “SOCIAL SECURITY PAYROLL DEDUCTION PLANS

18 “SEC. 251. (a) IN GENERAL.—Each person who is
 19 a covered employer for any calendar year shall have in
 20 effect throughout such calendar year a social security pay-
 21 roll deduction plan for such person’s employees who are
 22 eligible individuals and with respect to whose employment
 23 by such employer during such calendar year there is, or
 24 would be (but for the amendments made by section 2 of
 25 the Individual Social Security Retirement Accounts Act of

1 1997), imposed an excise tax under section 3111 of the
 2 Internal Revenue Code of 1986.

3 “(b) REQUIREMENTS.—For purposes of this part, the
 4 term ‘social security payroll deduction plan’ means a writ-
 5 ten plan of a covered employer if—

6 “(1) under such plan, 5 percent of the employ-
 7 ee’s wages is deducted by the employer and paid to
 8 the employee’s individual social security retirement
 9 account within 10 business days after the date of
 10 payment of such wages,

11 “(2) under such plan, the covered employer
 12 pays to the individual social security retirement ac-
 13 count, together with the contribution paid pursuant
 14 to paragraph (1), an additional amount equal to 5
 15 percent of the employee’s wages, and

16 “(3) the employer receives no compensation for
 17 the cost of administering such plan.

18 “DESIGNATION OF INDIVIDUAL SOCIAL SECURITY

19 RETIREMENT ACCOUNTS

20 “SEC. 252. (a) IN GENERAL.—Except as provided in
 21 subsection (b), the individual social security retirement ac-
 22 count to which contributions with respect to any eligible
 23 individual are required to be paid by a covered employer
 24 under section 251 shall be such an account designated by
 25 such individual to such employer not later than 10 busi-
 26 ness days after the date on which such individual becomes

1 an employee of such employer. Each employer of an eligi-
2 ble individual shall require the individual to designate such
3 account as provided under this subsection as a pre-
4 requisite for continued employment. Any such designation
5 shall be made in such form and manner as shall be pre-
6 scribed in regulations of the Commissioner of Social Secu-
7 rity.

8 “(b) SUBSEQUENT DESIGNATION OF OTHER AC-
9 COUNTS.—The Commissioner shall provide by regulation
10 for subsequent designation from time to time of another
11 individual social security retirement account of an eligible
12 individual in lieu of the account previously designated
13 under this section.

14 “SELF-EMPLOYED INDIVIDUALS

15 “SEC. 253. (a) IN GENERAL.—Not later than 30
16 days after the close of any taxable year for which an eligi-
17 ble individual has self-employment income, such individual
18 shall pay to an individual social security retirement ac-
19 count designated by such individual an amount equal to
20 at least 10 percent of such income.

21 “(b) DESIGNATION OF ACCOUNT.—The designation
22 of an individual social security retirement account for pay-
23 ment of contributions under this section shall be made in
24 such form and manner as shall be prescribed in regula-
25 tions of the Commissioner of Social Security.

1 “ELECTION TO BECOME AN ELIGIBLE INDIVIDUAL

2 “SEC. 254. (a) IN GENERAL.—An individual—

3 “(1) who has attained age 18 and has not at-
4 tained age 62, and

5 “(2) who is not entitled to disability insurance
6 benefits under section 223,

7 may elect to become an eligible individual for purposes of
8 this part. An election under this section is an election filed
9 in such form and manner as shall be prescribed in regula-
10 tions of the Commissioner, consisting of a written and
11 signed declaration of such individual’s intention to become
12 an eligible individual for purposes of this part.

13 “(b) REQUIREMENTS.—Any election under sub-
14 section (a) may take effect for any calendar year after
15 1999 and must be so filed not later than December 15
16 preceding the calendar year for which the election is to
17 take effect (or December 31 preceding such calendar year
18 in the case of an individual attaining age 18 after such
19 December 15 and before such calendar year).

20 “(c) IRREVOCABILITY.—Any election under sub-
21 section (a) shall be irrevocable and shall be effective with
22 respect to wages paid in calendar years following the elec-
23 tion and with respect to self-employment income for tax-
24 able years ending during such calendar years.

8 “(b) **DISABILITY INSURANCE.**—Under regulations of
9 the Commissioner of Social Security, any policy for dis-
10 ability insurance purchased pursuant to subsection (a)
11 shall meet at least the same standards for eligibility and
12 benefit levels for account holders and their spouses, surviv-
13 ing spouses, former spouses, and children, as are applica-
14 ble for beneficiaries under the disability insurance pro-
15 gram under part A, except that such benefits shall not
16 terminate by reason of retirement.

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1 ow's, widower's, and child's insurance benefits under part
2 A.

3 "ENTITLEMENT TO SUPPLEMENTAL MINIMUM BENEFIT
4 PAYMENT TO ACCOUNT

5 "SEC. 256. (a) IN GENERAL.—In any case in
6 which—

7 "(1) an eligible individual attains age 62,

8 "(2) as of the date on which the individual at-
9 tains age 62, no distributions have been made by the
10 individual from any individual social security retire-
11 ment account, and

12 "(3) on such date, the balance in such individ-
13 ual's individual social security retirement account
14 (before any distributions on such date) is less than
15 the minimum retirement annuity amount,

16 such individual, upon application to the Commissioner of
17 Social Security filed on or after such date in such form
18 and manner as shall be prescribed by the Commissioner,
19 shall be entitled to a supplemental minimum benefit pay-
20 ment to such account. Upon receipt of such application,
21 the Commissioner shall certify to the Secretary of the
22 Treasury the amount of such payment, and the Secretary
23 shall pay the amount of such payment to such account
24 in accordance with such certification from funds otherwise
25 available in the general fund of the Treasury.

1 “(b) AMOUNT OF SUPPLEMENTAL MINIMUM BENE-
2 FIT PAYMENT.—The amount of a supplemental minimum
3 benefit payment payable to an eligible individual’s account
4 under subsection (a) is the excess (if any) of—

5 “(1) the minimum retirement annuity amount,
6 over

7 “(2) the balance in such account as of such
8 date (taking into account the present value of the
9 future proceeds of any contribution recognition bond
10 issued to the trustee of the individual’s account pur-
11 suant to section 6 of the Individual Social Security
12 Retirement Accounts Act of 1997).

13 “(c) DEFINITIONS.—For purposes of this section—

14 “(1) MINIMUM RETIREMENT ANNUITY
15 AMOUNT.—The term ‘minimum retirement annuity
16 amount’ means the amount (determined under regu-
17 lations of the Commissioner of Social Security) nec-
18 essary to purchase a minimum retirement annuity
19 on the date of the application filed pursuant to sub-
20 section (a).

21 “(2) MINIMUM RETIREMENT ANNUITY.—The
22 term ‘minimum retirement annuity’ means an imme-
23 diate annuity making payments over the life expect-
24 ancy of the account holder which (on a monthly
25 basis) are equal to the lesser of—

1 “(A) an amount equal to 95 percent of the
 2 account holder’s initial primary insurance
 3 amount (determined under section 215 as if
 4 section 202(y) did not apply and the account
 5 holder applied for old-age insurance benefits on
 6 the date of the application filed pursuant to
 7 subsection (a)), or

8 “(B) 40 percent of the account holder’s av-
 9 erage indexed monthly earnings (as so deter-
 10 mined),

11 “(3) IMMEDIATE ANNUITY.—The term ‘imme-
 12 diate annuity’ means an annuity—

13 “(A) which is purchased with a single pre-
 14 mium, and

15 “(B) the annuity starting date (as defined
 16 in paragraph (4) of section 72(c) of the Inter-
 17 nal Revenue Code of 1986) of which commences
 18 on the 1st day of the month beginning after the
 19 date of the purchase of the annuity.

20 “DEFINITIONS

21 “SEC. 257. For purposes of this part—

22 “(1) INDIVIDUAL SOCIAL SECURITY RETIRE-
 23 MENT ACCOUNT.—The term ‘individual social secu-
 24 rity retirement account’ means any individual social
 25 security retirement account (as defined in section
 26 408B of the Internal Revenue Code of 1986).

1 “(2) COVERED EMPLOYER.—

2 “(A) IN GENERAL.—The term ‘covered em-
3 ployer’ means, for any calendar year, any per-
4 son on whom an excise tax is, or would be (but
5 for the amendments made by the Individual So-
6 cial Security Retirement Accounts Act of 1997),
7 imposed under section 3111 of the Internal
8 Revenue Code of 1986 with respect to having
9 an individual in his employ to whom wages were
10 paid by such person during such calendar year.

11 “(B) GOVERNMENTAL ENTITIES.—Under
12 regulations of the Commissioner of Social Secu-
13 rity, in applying subparagraph (A) with respect
14 to employment by governmental entities, each
15 such governmental entity shall be treated as a
16 person described in subparagraph (A) in the
17 same manner and to the same extent as such
18 person is treated under chapter 21 of the Inter-
19 nal Revenue Code of 1986 for purposes of sec-
20 tion 3111 of such Code.

21 “(3) ELIGIBLE INDIVIDUAL.—The term ‘eligible
22 individual’ means, with respect to a calendar year,
23 an individual with respect to whom an election, filed
24 with the Commissioner of Social Security under sec-
25 tion 254, is in effect for such calendar year.

1 “(4) BUSINESS DAY.—The term ‘business day’
2 means any day other than a Saturday, Sunday, or
3 legal holiday in the area involved.

4 “PENALTIES

5 “SEC. 258. (a) FAILURE TO ESTABLISH SOCIAL SE-
6 curity PAYROLL DEDUCTION PLAN.—Any covered em-
7 ployer who fails to meet the requirements of section 251
8 or 252 for any calendar year shall be subject to a civil
9 penalty of not to exceed the greater of—

10 “(1) \$50,000, or

11 “(2) \$1,000 for each eligible individual of such
12 employer as of the beginning of such calendar year.

13 “(b) FAILURE TO MAKE DEDUCTIONS REQUIRED
14 UNDER PLAN.—Any covered employer who fails to timely
15 deduct in full the amount from the wages of an eligible
16 individual required under an applicable social security pay-
17 roll deduction plan shall be subject to a civil penalty of
18 not to exceed \$50 for each such failure.

19 “(c) FAILURE TO PAY DEDUCTED WAGES TO INDIV-
20 idual SOCIAL SECURITY RETIREMENT ACCOUNT.—If
21 an amount deducted from the wages of an eligible individ-
22 ual under a social security payroll deduction plan is not
23 timely paid in full to the designated individual social secu-
24 rity retirement account in accordance with section 251—

25 “(1) the covered employer failing to make such
26 payment shall be subject to a civil penalty of not to

1 exceed 20 percent of the unpaid amount, in addition
2 to any penalty under subsection (a), and

3 “(2) shall be liable to the eligible individual for
4 interest on the unpaid amount at a rate equal to
5 133 percent of the Federal short-term rate under
6 section 1274(d)(1) of the Internal Revenue Code of
7 1986, calculated from the last day by which such
8 amount was required to be so paid to the date on
9 which such amount is paid into the designated indi-
10 vidual social security retirement account.

11 “(d) FAILURE BY SELF-EMPLOYED INDIVIDUALS TO
12 PAY CONTRIBUTIONS.—Any individual failing to timely
13 pay in full a prescribed social security self-employment
14 contribution to a designated individual social security re-
15 tirement account as required under section 253 shall be
16 subject to a civil penalty of not to exceed 20 percent of
17 the unpaid amount, plus interest on the unpaid amount
18 at a rate equal to 133 percent of the Federal short-term
19 rate under section 1274(d)(1) of the Internal Revenue
20 Code of 1986, calculated from the last day by which such
21 amount was required to be so paid to the date on which
22 such amount is paid into the designated individual social
23 security retirement account.

24 “(e) RULES FOR APPLICATION OF SECTION.—

1 “(1) PENALTIES ASSESSED BY COMMISSIONER
2 OF SOCIAL SECURITY.—Any civil penalty assessed by
3 this section shall be imposed by the Commissioner of
4 Social Security and collected in a civil action.

5 “(2) COMPROMISES.—The Commissioner may
6 compromise the amount of any civil penalty imposed
7 by this section.

8 “(3) AUTHORITY TO WAIVE PENALTY IN CER-
9 TAIN CASES.—The Commissioner may waive the ap-
10 plication of this section with respect to any failure
11 if the Commissioner determines that such failure is
12 due to reasonable cause and not to intentional dis-
13 regard of rules and regulations.”.

14 (b) AMOUNTS DEDUCTED TO BE SHOWN ON W-2
15 STATEMENTS.—Subsection (a) of section 6051 of the In-
16 ternal Revenue Code of 1986 (relating to receipts for em-
17 ployees) is amended—

18 (1) by striking “and” at the end of paragraph
19 (8),

20 (2) by striking the period at the end of para-
21 graph (9) and inserting “, and”, and

22 (3) by inserting after paragraph (9) the follow-
23 ing new paragraph:

24 “(10) the total amount deducted from the em-
25 ployee’s wages under a social security payroll deduc-

1 tion plan established under part B of title II of the
2 Social Security Act.”.

3 (c) EXEMPTION FROM ERISA REQUIREMENTS.—
4 Subsection (b) of section 4 of the Employee Retirement
5 Income Security Act of 1974 (29 U.S.C. 1003(b)) is
6 amended—

7 (1) by striking “or” at the end of paragraph
8 (4);

9 (2) by striking the period at the end of para-
10 graph (5) and inserting “; or”; and

11 (3) by adding at the end the following new
12 paragraph:

13 “(6) such plan is a social security payroll de-
14 duction plan established under part B of title II of
15 the Social Security Act.”.

16 (d) CONFORMING AMENDMENTS.—Section 201(h) of
17 such Act (42 U.S.C. 401(h)) is amended—

18 (1) by striking “All other” in the second sen-
19 tence and inserting “Except as provided in section
20 256, all other”; and

21 (2) by adding at the end the following new sen-
22 tence: “Any reference in this part to benefits under
23 this title shall be deemed a reference to benefits en-
24 titlement to which arises under this part.”.

1 **SEC. 4. TAX TREATMENT OF INDIVIDUAL SOCIAL SECURITY**
2 **RETIREMENT ACCOUNTS.**

3 (a) IN GENERAL.—Subpart A of part I of subchapter
4 D of chapter 1 of the Internal Revenue Code of 1986 (re-
5 lating to pension, profit-sharing, stock bonus plans, etc.)
6 is amended by inserting after section 408A the following
7 new section:

8 **“SEC. 408B. INDIVIDUAL SOCIAL SECURITY RETIREMENT**
9 **ACCOUNTS.**

10 “(a) GENERAL RULE.—Gross income shall not in-
11 clude—

12 “(1) any amount paid to an individual social se-
13 curity retirement account as the employer’s con-
14 tribution under section 251(b)(3) of the Social Secu-
15 rity Act, or

16 “(2) ½ of the amount paid to an individual so-
17 cial security retirement account under section 253(a)
18 of the Social Security Act.

19 “(b) INDIVIDUAL SOCIAL SECURITY RETIREMENT
20 ACCOUNT.—For purposes of this title, the term ‘individual
21 social security retirement account’ means a trust created
22 or organized in the United States for the exclusive benefit
23 of an eligible individual (as defined in section 257(3) of
24 the Social Security Act) or his beneficiaries, but only if
25 the written governing instrument creating the trust meets
26 the following requirements:

1 “(1) No contribution will be accepted, other
2 than—

3 “(A) a contribution under paragraph (1)
4 or (2) of section 251(b), or subsection (a) of
5 section 253, of the Social Security Act,

6 “(B) in any taxable year, an aggregate
7 amount not exceeding twice the total amount of
8 contributions described in subparagraph (A)
9 made in such taxable year,

10 “(C) a contribution recognition bond, and
11 the proceeds thereof, issued under section 6 of
12 the Individual Social Security Retirement Ac-
13 counts Act of 1997, and

14 “(D) a supplemental minimum benefit pay-
15 ment under section 256 of the Social Security
16 Act.

17 “(2) Except as provided in paragraph (12), no
18 amount may be paid or distributed from such
19 trust—

20 “(A) before the earlier of the date on
21 which the account holder attains age 59½ or
22 the date on which the account holder dies, or

23 “(B) if the account holder has not attained
24 age 62 and the balance in the account imme-
25 diately after the payment or distribution of

1 such amount would be less than the early dis-
2 tribution annuity amount (as defined in sub-
3 section (c)(2)).

4 “(3) The trustee is a bank (as defined in sec-
5 tion 408(n)) or such other person who demonstrates
6 to the satisfaction of the Secretary that the manner
7 in which such other person will administer the trust
8 will be consistent with the requirements of this sec-
9 tion.

10 “(4) The trustee has registered with the Com-
11 missioner of Social Security (in such form and man-
12 ner as the Commissioner may require) as a trustee
13 of individual social security retirement accounts.

14 “(5) No part of the trust fund is invested in life
15 insurance contracts.

16 “(6) The interest of an individual in the bal-
17 ance in his account is nonforfeitable.

18 “(7) The assets of the trust will not be commin-
19 gled with other property except in a common trust
20 fund or common investment fund, which fund is
21 comprised only of assets of individual social security
22 retirement accounts.

23 “(8) Under the terms governing the account,
24 contributions will be accepted irrespective of the
25 amount of the contribution.

1 “(9) The same requirements as are applicable
2 with respect to trusts under paragraph (9) of section
3 401(a) (relating to required distributions) are met
4 with respect to the account.

5 “(10) The same requirements as are applicable
6 with respect to trusts under paragraph (11) of sec-
7 tion 401(a) (relating to joint and survivor annuity
8 and preretirement survivor annuity) are met with re-
9 spect to the account (disregarding subparagraph (B)
10 thereof), as if the annuity starting date with respect
11 to the account holder is the earliest date on which
12 amounts may be distributed under paragraph (2).

13 “(11) The account holder certifies that such
14 trust is the only individual social security retirement
15 account of the holder.

16 “(12) Under terms governing the account,
17 amounts may be distributed from such trust to pur-
18 chase disability insurance or a policy providing for
19 preretirement survivor benefits under section 255 of
20 the Social Security Act.

21 Paragraphs (1), (2), and (10) shall not apply to a direct
22 trustee-to-trustee transfer to a successor individual social
23 security retirement account of the same individual.

24 “(c) REQUIREMENTS.—

25 “(1) REQUIREMENTS RELATING TO TRUSTEE.—

1 “(A) TRUSTEE.—A trustee meets the re-
2 quirements of subsection (b)(3) if—

3 “(i) the trustee is in business exclu-
4 sively as a trustee of individual social secu-
5 rity retirement accounts, and

6 “(ii) the trustee is of good character
7 and is a substantial concern, produces evi-
8 dence of financial capability, demonstrates
9 financial soundness, and provides appro-
10 priate surety.

11 “(B) REPLACEMENT OF TRUSTEE IN CASE
12 OF BANKRUPTCY.—In the case of a trustee of
13 an individual social security retirement account
14 with respect to which there is filed a bank-
15 ruptcy petition (or upon the initiation of a simi-
16 lar judicial proceeding) against the trustee, the
17 Secretary shall designate a successor trustee.

18 “(C) STATUS AS FIDUCIARY.—Under the
19 terms of an individual social security retirement
20 account, the trustee of the account shall, with
21 respect to the account, have the status of a fi-
22 ducary (within the meaning of the first sen-
23 tence of section 3(21)(A) of the Employee Re-
24 tirement Income Security Act of 1974). The
25 trustee shall, with respect to the account, be

1 treated as a fiduciary for purposes of section
 2 4975(e) (as applicable under subsection (f)(3)).

3 “(2) EARLY DISTRIBUTION ANNUITY
 4 AMOUNT.—For purposes of subsection (b)(2)—

5 “(A) IN GENERAL.—The term ‘early dis-
 6 tribution annuity amount’ means the amount
 7 (determined under regulations of the Secretary)
 8 necessary to purchase a minimum annuity on
 9 the date of the payment or distribution referred
 10 to in subsection (b)(2).

11 “(B) MINIMUM ANNUITY.—For purposes
 12 of subparagraph (A), the term ‘minimum annu-
 13 ity’ means an immediate annuity making pay-
 14 ments over the life expectancy of the account
 15 holder which (on a monthly basis) are equal to
 16 the lesser of—

17 “(i) an amount equal to 95 percent of
 18 the account holder’s initial primary insur-
 19 ance amount, determined under section
 20 215 of the Social Security Act—

21 “(I) as if section 202(y) of such
 22 Act did not apply, and

23 “(II) as if the account holder ap-
 24 plied for old-age insurance benefits on
 25 the date of the payment or distribu-

1 tion referred to in subsection (b)(2),
2 or

3 “(ii) 40 percent of the account hold-
4 er’s average indexed monthly earnings (as
5 so determined),

6 “(C) IMMEDIATE ANNUITY.—For purposes
7 of subparagraph (B), the term ‘immediate an-
8 nuity’ means an annuity—

9 “(i) which is purchased with a single
10 premium, and

11 “(ii) the annuity starting date (as de-
12 fined in paragraph (4) of section 72(c) of
13 the Internal Revenue Code of 1986) of
14 which commences on the 1st day of the
15 month beginning after the date of the pur-
16 chase of the annuity.

17 “(3) INVESTMENT IN COLLECTIBLES TREATED
18 AS A DISTRIBUTION.—For purposes of this section,
19 subsection (m) of section 408 shall apply.

20 “(d) ACCOUNT EXEMPT FROM TAX.—

21 “(1) GENERAL RULE.—Except as provided in
22 paragraph (2), any individual social security retire-
23 ment account is exempt from taxation under this
24 subtitle. Notwithstanding the preceding sentence,
25 any such account is subject to the taxes imposed by

1 section 511 (relating to imposition of tax on unre-
 2 lated business income of charitable, etc. organiza-
 3 tions).

4 “(2) APPLICATION OF PROHIBITED TRANS-
 5 ACTIONS RULES, ETC.—Rules similar to the rules of
 6 paragraphs (2), (3), and (4) of section 408(e) shall
 7 apply to individual social security retirement ac-
 8 counts.

9 “(e) TAXATION OF DISTRIBUTIONS.—

10 “(1) IN GENERAL.—

11 “(A) INCOME EXCLUSION.—In the case of
 12 any amount paid or distributed from an individ-
 13 ual social security retirement account—

14 “(i) the social security benefit amount
 15 shall be includible in gross income only if
 16 so includible under section 86, determined
 17 by treating the social security benefit
 18 amount as social security benefits (as de-
 19 fined in such section), and

20 “(ii) the supplemental retirement
 21 amount shall be includible in gross income
 22 to the extent that such amount is so in-
 23 cludible under section 72, determined by
 24 treating the individual social security re-
 25 tirement account as an individual retire-

1 ment plan in accordance with section
2 408(d)(2).

3 “(B) SOCIAL SECURITY BENEFIT
4 AMOUNT.—For purposes of subparagraph (A),
5 the term ‘social security benefit amount’ means
6 the amount which bears the same ratio to the
7 amount of the payment or distribution as the
8 sum of the amounts contributed to the individ-
9 ual social security retirement account under
10 subparagraphs (A), (C), and (D) of subsection
11 (b)(1) bears to the total amount contributed to
12 such account under subsection (b)(1).

13 “(C) SUPPLEMENTAL RETIREMENT
14 AMOUNT.—For purposes of subparagraph (A),
15 the term ‘supplemental retirement amount’
16 means the amount which bears the same ratio
17 to the amount of the payment or distribution as
18 the sum of the amounts contributed to the indi-
19 vidual social security retirement account under
20 subparagraph (B) of subsection (b)(1) bears to
21 the total amount contributed to such account
22 under subsection (b)(1).

23 “(2) TREATMENT OF ROLLOVERS.—No amount
24 shall be includible in gross income by reason of a di-
25 rect trustee-to-trustee transfer from an individual

1 social security retirement account of an individual to
2 a successor individual social security retirement ac-
3 count of the same individual if such transfer is made
4 in accordance with section 408(d)(3)(A)(i).

5 “(3) TREATMENT OF DISABILITY INSURANCE
6 AND PRERETIREMENT BENEFIT POLICY PRE-
7 MIUMS.—No amount shall be includible in gross in-
8 come to the extent that such amount is a premium
9 for the purchase of disability insurance or a policy
10 providing for preretirement survivor benefits pursu-
11 ant to section 255 of the Social Security Act.

12 “(4) TREATMENT OF COLLECTIBLES.—
13 Amounts treated as a distribution under subsection
14 (c)(3) shall be includible in gross income and para-
15 graph (1) of section 72(t) shall apply to such
16 amounts.

17 “(f) CERTAIN OTHER RULES TO APPLY.—The fol-
18 lowing rules shall apply to individual social security retire-
19 ment accounts in the same manner that such rules apply
20 to individual retirement accounts:

21 “(1) Section 408(h) (relating to custodial ac-
22 counts).

23 “(2) Sections 408(i) and 6693 (relating to re-
24 ports).

1 “(3) Section 4975 (relating to prohibited trans-
2 actions).”.

3 (b) EXCESS CONTRIBUTIONS.—

4 (1) IN GENERAL.—Subsection (a) of section
5 4973 of the Internal Revenue Code of 1986 is
6 amended by striking “or” at the end of paragraph
7 (3), by inserting “or” at the end of paragraph (4),
8 and by inserting after paragraph (4) the following
9 new paragraph:

10 “(5) an individual social security retirement ac-
11 count (as defined in section 408B),”.

12 (2) EXCESS CONTRIBUTIONS DEFINED.—Sec-
13 tion 4973 of such Code is amended by adding at the
14 end the following new subsection:

15 “(g) EXCESS CONTRIBUTIONS TO INDIVIDUAL SO-
16 CIAL SECURITY RETIREMENT ACCOUNTS.—For purposes
17 of this section, in the case of contributions to an individual
18 social security retirement account (within the meaning of
19 section 408B(b)), the term ‘excess contributions’ means
20 with respect to a taxable year the sum of—

21 “(1) the excess (if any) of—

22 “(A) the amount contributed for the tax-
23 able year to such account (other than a quali-
24 fied rollover contribution described in section
25 408B(e)(2)), over

1 “(B) the amount allowable as a contribu-
 2 tion for that taxable year under section
 3 408B(b)(1), and

4 “(2) the amount determined under this sub-
 5 section for the preceding taxable year, reduced by
 6 the sum of—

7 “(A) the distributions out of the account
 8 for such taxable year, and

9 “(B) the excess (if any) of the maximum
 10 amount allowable as a contribution under sec-
 11 tion 408B(b)(1) for such taxable year over the
 12 amount contributed to the account for the tax-
 13 able year.

14 For purposes of this subsection, any contribution which
 15 is distributed from an individual social security retirement
 16 account in a distribution described in section 408(d)(4)
 17 shall be treated as an amount not contributed.”.

18 (c) CLERICAL AMENDMENT.—The table of sections
 19 for subpart A of part I of subchapter D of chapter 1 of
 20 such Code is amended by inserting after the item relating
 21 to section 408A the following new item:

“Sec. 408B. Individual social security retirement accounts.”.

22 (d) EFFECTIVE DATE.—The amendments made by
 23 this section shall apply to taxable years beginning after
 24 December 31, 1999.

1 **SEC. 5. NO COVERAGE UNDER OASDI UPON ELECTION TO**
2 **BE ELIGIBLE INDIVIDUAL UNDER PART B.**

3 (a) OLD-AGE AND SURVIVORS INSURANCE BENE-
4 FITS.—Section 202 of the Social Security Act (42 U.S.C.
5 402) is amended by adding at the end the following new
6 subsection:

7 “(y) Notwithstanding the preceding provisions of this
8 section, an individual who has made an election under sec-
9 tion 254 to be an eligible individual under part B shall
10 be deemed (except for purposes of sections 226 and 226A)
11 not entitled to benefits under this section for any month
12 ending after the date of the election, and (except for pur-
13 poses of sections 226 and 226A) no other individual shall
14 be deemed entitled to benefits under this section for any
15 month ending after the date of the election based on the
16 wages or self-employment income of the individual who
17 made the election.”.

18 (b) DISABILITY INSURANCE BENEFITS.—Section 223
19 of such Act (42 U.S.C. 423) is amended by adding at the
20 end the following new subsection:

21 “(j) Notwithstanding the preceding provisions of this
22 section, an individual who has made an election under sec-
23 tion 254 to be an eligible individual under part B shall
24 be deemed (except for purposes of sections 226 and 226A)
25 not entitled to benefits under this section for any month
26 ending after the date of the election, and (except for pur-

1 poses of sections 226 and 226A) no other individual shall
2 be deemed entitled to benefits under section 202 for any
3 month ending after the date of the election based on the
4 wages or self-employment income of an individual who has
5 made such an election.”.

6 **SEC. 6. CONTRIBUTION RECOGNITION BONDS.**

7 (a) CERTIFICATION OF CREDITED WAGES AND SELF-
8 EMPLOYMENT INCOME.—Not later than July 1 of the first
9 calendar year for which an individual is an eligible individ-
10 ual (as defined in section 257(3) of the Social Security
11 Act), the Commissioner of Social Security shall certify to
12 the Secretary of the Treasury whether such individual
13 was, as of immediately before such first calendar year,
14 credited with wages and self-employment income under
15 part A of title II of the Social Security Act.

16 (b) ISSUANCE OF BOND.—Immediately upon receipt
17 of certification under subsection (a) that such individual
18 is so credited, the Secretary of the Treasury shall issue
19 a contribution recognition bond to the trustee of the indi-
20 vidual social security retirement account held by such indi-
21 vidual. Such bond shall consist of an obligation of the
22 United States to pay each month into the individual social
23 security retirement account held by such individual, com-
24 mencing with the applicable initial month, an amount
25 equal to such individual’s primary insurance amount, de-

1 terminated under section 215 of the Social Security Act as
2 if section 202(y) of such Act did not apply and such indi-
3 vidual had applied for old-age insurance benefits under
4 section 202(a) of such Act for such month, and by taking
5 into account average indexed monthly earnings based sole-
6 ly on those wages and self-employment income that were
7 credited as described in subsection (a).

8 (c) APPLICABLE INITIAL MONTH.—For purposes of
9 subsection (b), the applicable initial month in connection
10 with any individual is the later of—

11 (1) the month in which such individual attains
12 age 62, or

13 (2) the month in which such individual first
14 commences distributions from such individual's indi-
15 vidual social security retirement account.

16 (d) ADDITIONAL PROVISIONS.—The purposes for
17 which obligations of the United States may be issued
18 under chapter 31 of title 31, United States Code, are here-
19 by extended to authorize the issuance of public debt obli-
20 gations consisting of contribution recognition bonds issued
21 under this section. Each such obligation shall be evidenced
22 by a paper instrument in the form of a bond issued by
23 the Secretary setting forth the terms specified in this sub-
24 section, and stating on its face that the obligation shall
25 be incontestable in the hands of the trustee of such ac-

1 count, that the obligation is supported by the full faith
2 and credit of the United States, and that the United
3 States is pledged to the payment of the obligation, to the
4 credit of such account, in accordance with the provisions
5 of this section.

6 **SEC. 7. PHASED IN INCREASE IN SOCIAL SECURITY RETIRE-**
7 **MENT AGE.**

8 Section 216(l) of the Social Security Act (42 U.S.C.
9 416(l) is amended—

10 (1) by striking subparagraphs (B), (C), (D),
11 and (E) of paragraph (1) and inserting the following
12 new subparagraphs:

13 “(B) with respect to an individual who attains
14 early retirement age (as determined under para-
15 graph (2)) after December 31, 1999, and before
16 January 1, 2029, 65 years of age plus $\frac{2}{12}$ of the
17 number of months in the period beginning with Jan-
18 uary 2000 and ending with December of the year in
19 which the individual attains early retirement age (as
20 so determined); and

21 “(C) with respect to an individual who attains
22 early retirement age after December 31, 2028, 70
23 years of age.”; and

24 (2) by striking paragraph (3).

1 **SEC. 8. ADJUSTED PERCENTAGES APPLIED TO AVERAGE**
2 **INDEXED MONTHLY EARNINGS IN DETERMIN-**
3 **ING PRIMARY INSURANCE AMOUNTS.**

4 (a) IN GENERAL.—Section 215(a)(1)(B) of the So-
5 cial Security Act (42 U.S.C. 415(a)(1)(B)) is amended by
6 adding at the end the following new clause:

7 “(iii) For purposes of determinations made under
8 this subsection taking effect in each calendar year after
9 1999, each percentage specified in clauses (i), (ii), and (iii)
10 of subparagraph (A) shall be replaced with a percentage
11 equal to the product derived by multiplying—

12 “(I) the percentage in effect for purposes of de-
13 terminations made under this subsection in the prior
14 calendar year, by

15 “(II) the applicable index ratio,
16 rounded to the nearest one-tenth of 1 percent.

17 “(iv) For purposes of clause (iii), the applicable index
18 ratio in connection with determinations made under this
19 subsection in any calendar year, means a ratio—

20 “(I) the numerator of which is 100 percent plus
21 the percentage (rounded to the nearest one-tenth of
22 1 percent) by which the Consumer Price Index for
23 December of the preceding calendar year exceeds the
24 Consumer Price Index for December of the next
25 prior calendar year, and

1 “(II) the denominator of which is 100 percent
 2 plus the percentage (rounded to the nearest one-
 3 tenth of 1 percent) by which the national average
 4 wage index (as defined in section 209(k)(1)) for the
 5 preceding calendar year exceeds such index for the
 6 next prior calendar year.”.

7 (b) CONFORMING AMENDMENT.—Section 209(k)(1)
 8 of such Act (42 U.S.C. 409(k)(1)) is amended by inserting
 9 “215(a)(1)(B)(iii),” after “215(a)(1)(B)(ii),”.

10 **SEC. 9. OFF-BUDGET TREATMENT FOR SOCIAL SECURITY**
 11 **REFORMS.**

12 (a) IN GENERAL.—In determining any new budget
 13 authority, outlays, receipts, deficit, or surplus for purposes
 14 of—

15 (1) the budget of the United States Govern-
 16 ment as submitted by the President,

17 (2) the congressional budget, or

18 (3) the Balanced Budget and Emergency Defi-
 19 cit Control Act of 1985,

20 any receipts or disbursements of the general fund of the
 21 Treasury and any indebtedness incurred by the Federal
 22 Government pursuant to the operation of the provisions
 23 of this Act or the amendments made thereby (other than
 24 administrative expenses of the Social Security Administra-

1 tion or the Department of the Treasury) shall not be taken
2 into account.

3 (b) RULES OF CONSTRUCTION.—Nothing in this Act
4 (or the amendments made thereby) shall—

5 (1) affect the status as private property of
6 amounts contributed to individual social security re-
7 tirement accounts pursuant to section 251 or 253 of
8 the Social Security Act (added by this Act) and any
9 income attributable to such contributions, or

10 (2) supersede or otherwise affect the provisions
11 of section 710 of the Social Security Act (relating to
12 budgetary treatment of the social security trust
13 funds) or section 13301 of the Budget Enforcement
14 Act of 1990 (relating to off-budget status of OASDI
15 trust funds).

16 (c) EXCLUSION OF PROGRAM FOR SOCIAL SECURITY
17 REFORMS FROM CONGRESSIONAL BUDGET.—Section
18 301(a) of the Congressional Budget Act of 1974 is amend-
19 ed in the last sentence by inserting “or of the operation
20 of the provisions of the Individual Social Security Retire-
21 ment Accounts Act of 1997 (and the amendments made
22 thereby)” after “1986”.

1 **SEC. 10. STUDY RELATING TO FEDERAL CIVILIAN AND**
2 **MILITARY PERSONNEL.**

3 (a) IN GENERAL.—Not later than December 31,
4 1998, the Office of Personnel Management, after appro-
5 priate study, shall submit to the President and each House
6 of the Congress a written report containing recommenda-
7 tions for the most appropriate and feasible means of pro-
8 viding for the application of this Act with respect to Fed-
9 eral civilian and military personnel.

10 (b) REQUIREMENTS.—The report—

11 (1) shall be prepared in consultation with the
12 Social Security Administration and other appro-
13 priate agencies, and

14 (2) shall be accompanied by draft legislation
15 which, if enacted, would carry out the recommenda-
16 tions contained in such report.

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